UNIVERSITY OF ILLINOIS EXTENSION

# WEEKLY OUTLOOK

A joint publication of the Department of Agricultural Economics, College of Agriculture, Purdue University, West Lafayette, Indiana, and the Department of Agricultural and Consumer Economics, College of Agricultural, Consumer and Environmental Sciences, University of Illinois at Urbana-Champaign.

**MAY 15, 2006**

## USDA REPORTS SUPPORT CROP PRICES

The USDA's monthly report of world supply and consumption prospects provided some fundamental support for crop prices, particularly corn and wheat prices. As a result, new highs were established for some futures contracts of corn, soybeans, and wheat.

For corn, the USDA increased the forecast of U.S. exports for the current marketing year by 75 million bushels and reduced the forecast of year ending stocks by the same amount. At 2.025 billion bushels, exports would be the largest in 10 years. The current forecast of year-ending stocks, 2.226 billion bushels, is 200 million bushels less than the January forecast. For the 2006-07 marketing year, acreage at the level reported in the March *Prospective Plantings* report and a trend yield (149 bushels) results in a production forecast of 10.55 billion bushels. Consumption is projected at 11.645 billion bushels, 635 million above the projection for the current year, led by a 550 million bushel (34 percent) increase in the amount of corn used for ethanol production. Exports are expected to grow by 125 million bushels. September 1, 2007 stocks are projected at 1.141 billion bushels and the 2006-07 marketing year average farm price is expected to be between $2.25 and $2.65. The midpoint of that price range would be the highest average farm price in 10 years.

For soybeans, the USDA did not alter any domestic projections for the current year. The 2005-06 marketing year farm price is expected to average $5.65, only $.09 below the 2004-05 average in spite of a large increase in year ending stocks. For the 2006-07 marketing year, acreage at the level reported in March and an average yield of 40.7 bushels would result in a crop of 3.08 billion bushels, about equal to the record crop of 2005. The yield of 40.7 bushels is projected from an analysis of regional trends over the period 1978-2005 and is 2.6 bushels below the record yield of 2005. Consumption is forecast at 2.999 billion bushels, 217 million more than the projection for the current year, led by a 190 million bushel increase in the export projection. U,.S. stocks of soybeans are expected to grow from 565 million bushels on September 1, 2006 to 650 million on September 1, 2007 and the 2006-07 marketing year average farm price is projected in a range of $5.10 to $6.10.

For the current U.S. wheat marketing year, which ends on May 31, 2006, the projection of exports was reduced by 15 million bushels and the projection of year ending stocks was increased by an equal amount. The first forecast of the 2006 U.S. winter wheat crop came in at 1.323 billion bushels.  That estimate is 176 million bushels (12 percent) smaller than the 2005 harvest even though planted acreage was about equal to that of last year.  Harvested acreage of winter wheat is projected at 31.177 million, 2.617 million less  than harvested last year and the U.S. average yield is projected at 42.4 bushels, 2 bushels below the 2005 average.  Production declines are expected to be large in Texas (63 percent) and Oklahoma (47 percent), due to severe drought conditions. Production in the largest winter wheat producing state of Kansas is projected at 319.6 million bushels, 17 percent smaller than the 2005 harvest, but a little larger than the 2004 harvest. Production is expected to be larger in the midwest and the southeast, with soft red winter wheat produdtion forecast at 356 million bushels, 15 percent larger than the 2005 crop.

Based on planting intentions and trend yield, the 2006 spring wheat crop is expected to total 550 million bushels, 56 million smaller than the 2005 crop.  Production of all classes of wheat is projected at 1.873 billion bushels, 232 million smaller than the 2005 harvest and the smallest crop in four years.  Stocks of U.S. wheat are expected to decline by 100 million bushels from June 1, 2006 to June 1, 2007, resulting in a 2006-07 marketing year average price in a range of $3.50 to $4.10, compared to an average of $3.42 for the year just ending.

Corn, soybean, and wheat prices continued to move higher following the report, with corn futures reaching new contract highs from September 2006 through December 2008.  Soybean futures reached new highs from May 2007 through November 2008, while wheat futures established new highs for all contracts.  Unlike many “bull” markets that are led by nearby prices that generate inversions in the price structure, the current rally is being led by deferred contracts, particularly for corn and soybeans.  The current situation suggests to some  that prices may be moving to a new plateau (in nominal terms) similar to the shift that took place in 1973, as the higher prices appear to be generated by strong demand and a  higher cost structure.   If these conditions persist, the key for longer term price levels may be on the supply side.  At what rate will world production, through a combination of higher yields and increased acreage (South America), expand?

Issued by Darrel Good
Extension Economist
University of Illinois